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RUEHLO/AMEMBASSY LONDON 0229
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SUBJECT: RWANDA ECONOMIC ROUNDUP

REF: A. KIGALI 202

[1](#)B. KIGALI 264

[1](#)1. (U) This edition of the Rwanda economic review includes:

Commercial News:

- Rwandair shakes up management, cancels flights to Johannesburg
- Government cracks down on shaky micro-finance institutions
- Rwandex - Rwanda's largest coffee exporter suspends operations
- Nakumatt - Kenya's leading hypermarket chain opens branch in Kigali

Investment Issues:

- Canadian oil exploration firm finds traces of oil in Rwanda
- African Development Corp. buys 25 percent stake in Development Bank of Rwanda (BRD)

Development Issues:

- Government plans \$200 million investment in agricultural development
- African Development Bank (ADB) commits \$13 million to rice production project
- World Bank approves additional \$6 million for the Rwanda Competitiveness and Enterprise Development Project (CEDP)

Regional Issues:

- Rwanda to host East African Community (EAC) presidential summit June
- Trade with Uganda and EAC grows

Macro Economic Indicators:

- Inflation pressures grow
- Fuel consumption increases 74 percent in last 5 years
- Exports increased by 56.54 percent during first quarter of 2007 compared to first quarter of 2006
- Imports increased by 31.09 percent over the same period

Commercial News

[1](#)2. (U) Rwandair: Rwanda's national airline Rwandair has been battered recently by safety concerns, poor customer service and financial woes (refs a,b). Former CEO Manzi Kayihura was arrested March 28 on charges of abuse of office. Incoming CEO and former Board Chairman Gerald Zirimwabagabo confirmed the airline has been forced to cancel flights to Johannesburg and Nairobi, but said it was continuing flights to Bujumbura, Entebbe and Kilimanjaro. The new CEO admitted that a long-hoped for

privatization was delayed because, "Rwandair is too weak to be privatized." Zirimwabagabo asserted the airline is now looking at rebuilding its business plan and restructuring operations.

13. (U) Microfinance: The Government of Rwanda (GOR) has cracked down on microfinance institutions that abused public funds and engaged in questionable financial transactions. In April, the Prosecutor General's office arrested 33 managers of microfinance institutions on charges of fraud. The government alleges those arrested were issuing loans to friends and relatives. The Prosecutor General claims depositors were defrauded up to \$10 million as a result of the questionable transaction

14. (SBU) Rwandex: After 44 years of operations, Rwandex (the largest coffee processing and exporting company in Rwanda) has suspended operations for financial reasons. Rwandex has struggled since 2004 when government liberalization of the coffee sector allowed more competition into the market. The former Commercial Director of Rwandex Leo Aguma told creditors he does not expect the company to renew operations and that creditors will likely sell off the company's assets.

15. (U) Kenyan chain opens: Nakumatt, a leading department store and supermarket chain in Kenya has opened a branch in Rwanda and plans to invest \$7 million to build a 25,000 square foot supermarket stocked with more than 20,000 items including foods, beverages, electronics and furniture. This will be the first supermarket of this size in Rwanda.

Investment News QInvestment News -----

16. (U) Oil exploration: Canadian oil exploration company Vangold Resources Ltd announced it has discovered traces of oil in Lake Kivu using satellite imagery and technical review. Vangold has an exploration concession in northwestern Rwanda covering 1,631 square kilometers. The findings suggest that Tullow Oil's discovery in southwestern Uganda extends into Rwanda. Vangold will now undertake a geochemical sampling and gravity magnetic surveys to determine the potential for oil exploitation.

17. (U) Banking: The African Development Corporation has purchased a 25 percent stake in the Development Bank of Rwanda (BRD) for \$8.2 million. Henry Gapere, Chairman of the Board of Directors of BRD, told the local press the capital infusion would strengthen the bank and allow it to invest in longer term investments such as mining. The Government of Rwanda which previously was the majority shareholder in the bank with 4 percent of share capital, now owns 20.6 percent of the bank.

Development Issues -----

18. (U) Agricultural Investment: The GOR announced plans to invest \$200 million over the next four years in agricultural development, including irrigation and soil conservation projects, to encourage production of high-value crops and improve agricultural yields. The investment will be financed 15 percent from the GOR, 40 percent from donor grants and 45 percent from loans from the World Bank and China. The Rwandan Finance Minister told reporters 10,000 hectares are targeted for terracing and irrigation projects and will support increased yields of coffee, tea, apples and avocados. The GOR and the African Development Bank have also committed \$13 million to rice production in Bugesera.

19. (U) Private Sector Development: The World Bank approved an additional \$6 million grant to the CEDP to expand support for private sector development. The funds will be used to help build capacity in the microfinance sector, develop accounting and auditing standards and enhance regulation and supervision of non-bank financial institutions.

Regional Issues -----

110. (U) EAC Summit: Rwanda will host the EAC presidential summit on June 26. The summit will focus on fast-tracking regional integration and feature an EAC investment forum. Rwanda, which joined Kenya, Tanzania, Uganda and Burundi in the EAC in 2007, has been a strong advocate of EAC economic integration and has seen a rapid expansion of trade with member states. According to the Uganda Export Board, trade between Rwanda and Uganda has tripled since Rwanda joined the EAC.

Macro-Economic Indicators

¶11. (U) Inflation: Inflationary pressures continue to grow with annual inflation now estimated at 12-13 percent (from below 10 percent last year), according to local bank sources. Increased food and fuel prices have been significant contributors to accelerating inflation. The Cent Bank reported fuel imports have increased by 74 percent over the last few years and account for 90 percent of all imports. As a result of increased fuel demand and higher prices, overall imports increased by 29 percent in 2007. Similarly, imports of food products during the first quarter of 2007 increased by 107.4 percent in value compared to the same period in 2006. Additionally, growing domestic capital and foreign exchange reserves have not been efficiently recycled into long term capital investments increasing upward pressure on inflation, according to US Treasury Department consultants.

¶12. (U) Export Growth: During the first quarter of 2007, the dollar value of Rwandan exports increased by 56.6 percent compared to the same period in 2006. Export growth was driven by traditional exports of coffee, tea and minerals which accounted for 80 percent of all exports. Pyrethrum exports also showed strong growth, assisted by a 40 percent rise in market prices.

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